

The unaudited consolidated accounts for the six months ended 30th September 2006 are as follows:

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

	Six Months ended 30 Sept		Previous Full Year Ended 31 March
	2006	2005	2006
	\$000	\$000	\$000
Sales Revenue	22,375	18,960	42,976
Net Profit Before Tax	1,986	480	450
Taxation Provided	655	158	153
Net Profit After Tax	1,331	322	297
Earnings Per Share (cents, after tax)	5.5	3.0	1.2

CONSOLIDATED STATEMENT OF CASHFLOWS

	Six Months ended 30 Sept		Previous Full Year Ended 31 March
	2006	2005	2006
	\$000	\$000	\$000
Net cashflows from operating activities	119	(1,007)	3,501
Net cashflows from investing activities	(246)	(2,859)	(5,622)
Net cashflows from financing activities	(1,586)	3,354	3,875
Net increase (decrease) in cash held	(1,713)	(512)	1,754
Opening cash carried forward	414	(1,340)	(1,340)
Ending cash carried forward	(1,299)	(1,852)	414

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Six Months ended 30 Sept		Previous Full Year Ended 31 March
	2006	2005	2006
	\$000	\$000	\$000
Equity	17,710	12,532	16,380
Current Liabilities & Provisions	5,714	7,199	10,380
Provision for Deferred Tax	743	671	714
Term Liabilities	14,569	15,635	10,361
	38,736	36,037	37,835
Fixed Assets	26,989	21,460	27,569
Investments	6	6	6
Current Assets	11,741	14,571	10,260
	38,736	36,037	37,835
Net tangible asset backing (cents per share)	72.5	51.3	67.1



100 KERWYN AVENUE, EAST TAMAKI. PO BOX 22 546  
OTAHUHU, AUCKLAND, NEW ZEALAND

PHONE 64 9 274 7598 FAX 64 9 274 0675

2006 INTERIM REPORT  
FOR 6 MONTHS ENDED 30TH SEPTEMBER 2006  
MR CHIPS HOLDINGS LTD

## COMPANY RESULTS

The unaudited consolidated net profit before tax, for the six months ended 30th September 2006 of \$1,986,003 is a four fold increase on last year. Tax paid profit is up similarly to \$1,330,615. While this record half year for the company is in sharp contrast to recent disappointing results, it represents a realistic return on the very substantial capital expenditure incurred over the last four years.

Sales increased by 20% consistent with the strong organic growth achieved since the East Tamaki plant was commissioned in 2002. Marketing is based on a value proposition, despite lower quality but cheaper product being available in the market and this has gained good end user acceptance. Now that we have reached a stable critical mass we are not prepared to gain sales at unrealistic prices.

The sharp turnaround in profit has been achieved by increased gross margins, largely as a result of the increased sales, good utilisation of the new coldstore and a more favourable AUD/NZD exchange rate. We have also continued to extract production efficiencies and the quality of both the potato crop and finished product has been excellent.

While the recent bounce in the exchange rate is of concern we have a hedging program in place that affords good protection for the next production season.

## BALANCE SHEET

Inventory is at an absolute minimum for our forecast sales but we are confident we can service our existing customers until the new production season commences in January 2007. Reduced working capital has resulted in a significantly strengthened balance sheet. The balance sheet equity ratio is 45.7% and the debt to debt plus equity ratio is 54.3% and while still higher than we are targeting, are such that we are able to resume paying dividends.

Accordingly the Board has declared a fully imputed interim dividend of 3.5 cps payable on 22nd December 2006 ex 18th December 2006.

## ADOPTING NZ EQUIVALENTS TO IFRS ('NZ IFRS')

In December 2002, the New Zealand Accounting Standards Review Board announced that reporting entities would be required to comply with New Zealand equivalents of International Financial Reporting Standards (NZ IFRS) for financial statements covering annual reporting periods starting on or after 1 January 2007, with earlier adoption for periods starting on or after 1 January 2005 permitted. In the case of Mr Chips Holdings and subsidiaries, the first financial year for which fully compliant financial statements must be produced will be for the year commencing on 1 April 2007 and ending 31 March 2008 at which time the comparative figures for the previous year will also be restated onto the same status of compliance with NZ IFRS.

Although early implementation is an option, the Board of Directors have determined that the Group will adopt NZ IFRS for the first time in its reports to shareholders for the year ending 31 March 2008.

As at 30 September 2006, the group has performed a high level review, in conjunction with their advisors of the key differences between NZ IFRS and current New Zealand Financial Reporting Standards. The areas of potential impact include the recognition and measurement of financial instruments, in accordance with NZ IAS 39, "Financial Instruments: Measurement and Recognition" and the recognition of deferred tax on temporary differences relating to the revaluation of buildings in accordance with NZ IAS 12, "Income Taxes".

A more comprehensive review and qualification of areas of difference will be conducted as part of the transition project. The purpose of this disclosure is to highlight the impact the Company expects as a result of transitioning to NZ IFRS from current accounting policies of the Company based on the standards and interpretations as they are today. It is possible that future developments to NZ IFRS will change the nature of the adjustments required by the time the Group reports its first financial statements prepared under IFRS.

## OUTLOOK

We are budgeting that recent gains will be maintained for both the full year and the following year. While the domestic market remains healthy, our growth is principally a result of increased exports to Australia and this means we are increasingly exposed to the AUD/NZD exchange rate. The East Tamaki plant is likely to be at maximum capacity in its present configuration by the end of 2007.

Government intentions to further lift minimum wages is expected to have an adverse impact although robotic plant automation in the packaging area, which has an attractive payback, is to be commissioned prior to the 2007 production season and will help to mitigate increased wage rates.

It is ironic that despite the government contemplating moves to encourage exports most of our difficulties are the result of government policies. Increased energy and labour costs are being directly driven by central government, rates and trade waste charges by local government. Together with high interest rates and the resulting exchange rates these imposts are simply unsustainable for exporters which have to remain internationally competitive.

Nevertheless, with the benefit of hedging and sales contracts in place we anticipate a similar result for the second half of the year.

On behalf of the Board



Graeme Edwards  
Chairman

31 October 2006

For further information, please contact:

Mr Graeme Edwards  
Chairman  
Mr Chips Holdings Ltd  
Ph: (021) 283 0245 Mobile  
(09) 422 6221 Private

Mr Jon Davison  
Chief Executive Officer  
Mr Chips Holdings Ltd  
Ph: (021) 936 194 Mobile  
(09) 274 7598 Business